農銀國際
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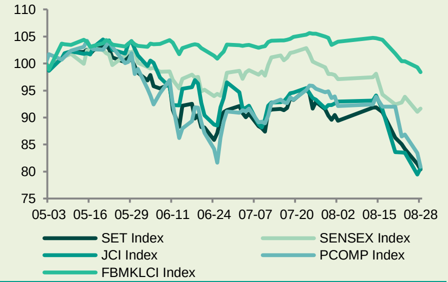
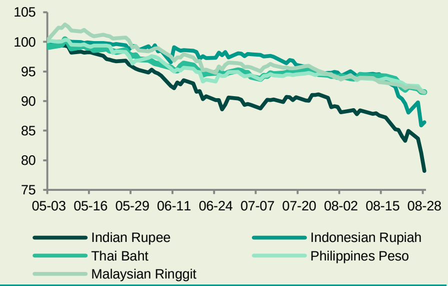
Exhibit 1: Equity markets in emerging Asian countries have been tumbling since May



*May 3 as the baseline value of 100
Source(s): Bloomberg

Exhibit 2: Currencies of emerging Asian countries have been depreciating since May



*May 3 as the baseline value of 100
*All currency exchange rates are against US Dollar
Source(s): Bloomberg

Exhibit 3: Current account balance/GDP(%)

Source(s): Bloomberg

Exhibit 4: Forex Reserve/GDP (%)

Source(s): Bloomberg

Asia currency storm: Not a crisis yet

A number of emerging countries in Asia are experiencing massive declines in stock markets and currency values, signaling the end of the boom years fueled by cheap money from US's QE program. As the U.S. is ready to taper the program, investors are rebalancing their portfolio towards the developed markets and turn more cautious on the outlook of emerging countries. Although the current situations in the emerging countries bear some resemblance to the financial crisis in 1997, we believe that they are better armed against capital flight today as these countries have increased their foreign currency reserves, reformed their banking sectors and are de-pegged from the USD. They are in better financial positions with stronger economic fundamentals to cope with the short-term turbulence. Moreover, investors remain confident on the developed economies in Asia.

Emerging Asian countries are losing ground on internal and external factors. The sharp declines in equity markets and currencies were triggered by the expectation that the Federal Reserve will dial down its monthly pace of asset purchase. Also contributed to the current turbulence was the fragile economic models of the developing Asian peers. While exports in the affected countries have been weakening due to China's slower growth and recovering global demand, the cost of oil imports has been rising, leaving countries like Thailand and Indonesia with widening current account deficits. India, once a rising star in Asia, is facing a twin-deficit situation – current account deficit and fiscal deficit. The twin deficits, combined with a high inflation rate, are making it difficult for the Reserve Bank of India to implement expansionary monetary policy to stimulate economic growth. Further complicating the situation is the governments' subsidy programs for food and fuel. Unwinding these policies is favorable under the current circumstances, but political factors are stalling the decision-making process. In sum, these countries are facing a combination of high inflation, problematic government spending, and monetary policy constraints.

Fundamental indicators suggest the countries in turmoil are capable of weathering the storm. Despite the massive sell-off in the Asian equity and currency markets, economic fundamentals of the developing countries in Asia have improved significantly since the financial crisis in 1997. In the past few years, many have enjoyed current account surpluses. Despite the current account deficits at present do reflect a worse-than-expected economic condition, the figures do not account for a high proportion of the national GDPs among these Asian countries. Moreover, they are holding much larger foreign reserves than they did when the 97' financial crisis struck to cope with the current situation. Furthermore, financial systems in these countries have matured over the years and should provide a stronger buffer against the capital outflows.

Developed peers in Asia reveal a different story. As Southeast Asian countries are still facing extensive liquidity outflows, other regions in Asia are revealing a different story. In the developed economies in Asia, namely Hong Kong, Taiwan, Japan, and Korea, values of their local currencies against the USD have remained relatively stable, suggesting that the foreign investors are still optimistic about the economic prospects of these countries. We believe the attractive valuations of their equity markets, the export-driven economies backed by recovery in the U.S. and Europe, and the strong economic fundamentals of these Asian countries would help them weather the storm of capital outflows.

China is likely to adopt more monetary stimulus measures in 2H13. As China's economy weakened in 1H13, its imports of raw materials from other emerging peers in Asia declined. China's Southeast Asian neighbors were suffering from declines in trade receipts. To counteract against the economic downturn, China is likely to favor more monetary stimulus measures in 2H13 through the prudent use of repo agreements to maintain adequate liquidity in the market. Given the more stable outlook of China’s economy in 2H13, we expect the country would capitalize on the opportunity to accelerate RMB internationalization to enhance its economic and financial influence in Asia.

China Economic Indicators

	2012						2013						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Real GDP (YoY%)	---	---	7.4	---	---	7.9	---	---	7.7	---	---	7.5	---
Export Growth (YoY%)	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1
Import Growth (YoY%)	4.7	(2.6)	2.4	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9
Trade Balance (USD/bn)	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8
Retail Sales Growth (YoY%)	13.1	13.2	14.2	14.5	14.9	15.2	12.3		12.6	12.8	12.9	13.3	13.2
Industrial Production (YoY%)	9.2	8.9	9.2	9.6	10.1	10.3	9.9		8.9	9.3	9.2	8.9	9.7
PMI - Manufacturing (%)	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3
PMI - Non-manufacturing (%)	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1
FAI(YTD) (YoY%)	20.4	20.2	20.5	20.7	20.7	20.6	21.2		20.9	20.6	20.4	20.1	20.1
CPI (YoY%)	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7
PPI (YoY%)	(2.9)	(3.5)	(3.6)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)
M2 (YoY%)	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5
New Lending (RMB/bn)	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	14,824.51	(1.24)	14.20
S&P 500	1,634.96	(1.72)	15.70
NASDAQ	3,593.35	(1.76)	21.56
MSCI US	1,564.16	(1.68)	15.88
Europe			
FTSE 100	6,476.04	(0.25)	19.10
DAX	8,185.19	(2.75)	14.03
CAC40	3,980.29	(2.19)	17.17
IBEX 35	8,435.40	(2.89)	67.10
FTSE MIB	16,897.89	(2.56)	N/A
Stoxx 600	299.74	(1.63)	19.48
MSCI UK	1,902.34	(0.93)	18.96
MSCI France	110.30	(2.73)	20.96
MSCI Germany	112.02	(3.11)	13.18
MSCI Italy	48.29	(2.95)	132.5
Asia			
NIKKEI 225	13,459.71	(1.47)	22.34
S&P/ASX 200	5,092.41	(0.60)	22.08
HSI	21,704.78	(0.73)	10.05
HSCEI	9,850.72	(0.82)	7.88
CSI300	2,318.31	1.37	11.36
SSE Composite	2,097.23	1.93	11.08
SZSE Composite	1,014.44	0.95	28.56
MSCI China	57.49	(1.47)	9.38
MSCI Hong Kong	11,129.17	(1.67)	9.94
MSCI Japan	688.86	(2.41)	17.93

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	109.24	2.65	252,467
ICE Brent Oil	USD/bbl	115.59	4.10	208,383
NYMEX Natural Gas	USD/MMBtu	3.58	2.81	67,388
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	77.65	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,815.25	(1.70)	29,615
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,864.50	(1.51)	31,241
CMX Copper Active	USD/lb.	329.55	(1.58)	46,837
LME Copper 3- mth Rolling Fwd.	USD/MT	7,290.00	(0.95)	46,060
TSI CFR China Iron Ore Fines Index[3]	USD	138.30	(0.22)	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,412.50	1.20	147,920.20
CMX Silver	USD/T. oz	24.22	(0.52)	63,471
NYMEX Platinum	USD/T. oz	1,530.20	(0.74)	9,949.80
Agricultural Products				
CBOT Corn	USD/bu	478.75	1.86	180,390
CBOT Wheat	USD/bu	642.75	1.30	24,720
NYB-ICE Sugar	USD/lb.	16.50	0.18	53,673
CBOT Soybeans	USD/bu.	1,369.75	3.14	168,837

Bond Yields & Key Interest Rates

	Yield (%)	Chg. WTD (%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Treasury (1 Mth)	0.0253	150.5
US Treasury (5 Yr)	1.6290	0.66
US Treasury (10 Yr)	2.7892	(0.90)
Japan 10-Yr Gov. Bond	0.7140	(7.75)
China 10-Yr Gov. Bond	4.0700	2.26
ECB Rate (Refinancing)	0.50	0.00
1-Month LIBOR	0.1834	(0.38)
3 Month LIBOR	0.2612	(0.34)
3-Month HIBOR	2.9570	(9.43)
O/N SHIBOR	0.3836	0.00
Corporate Bonds	(Moody's)	
Aaa	4.51	(1.96)
Baa	5.38	(2.00)

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.33	1.55	0.89	98.21	0.93	6.12	7.76	6.24
Chg. WTD (%)	(0.95)	(0.38)	(1.04)	0.52	(0.67)	0.03	(0.01)	0.01

Note:

1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price

Disclosures

Analyst Certification
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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate from 2007-2011
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.
Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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